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INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TEMPORARY NATIONAL ECONOMIC COMMITTEE

A STUDY SUBMITTED BY A COMMITTEE APPOINTED BY THE SECRETARY OF AGRICULTURE, TO THE TEMPORARY NATIONAL ECONOMIC COMMITTEE, SEVENTY-SIXTH CONGRESS, THIRD SESSION, PURSUANT TO PUBLIC RESOLUTION NO. 113 (SEVENTY-FIFTH CONGRESS), AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO MAKE A FULL AND COMPLETE STUDY AND INVESTIGATION WITH RESPECT TO THE CONCENTRATION OF ECONOMIC POWER IN, AND FINANCIAL CONTROL OVER, PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES

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AGRICULTURE AND THE NATIONAL ECONOMY

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AGRICULTURE AND THE NATIONAL ECONOMY

ALBERT L. MEYERS

II

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This monograph was written by

ALBERT L. MEYERS

Senior Economist, United States Department of Agriculture

The Temporary National Economic Committee is greatly indebted to this author for his contribution to the literature of the subject under review.

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(Signed) JOSEPH C. O'MAHONEY,
Chairman, Temporary National Economic Committee.

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LETTER OF TRANSMITTAL

Hon. Joseph C. O'Mahoney,
Chairman, Temporary National Economic Committee,
Washington, D. C.

My Dear Senator: I have the honor to transmit herewith a study on Agriculture and the National Economy, by Dr. Albert L. Meyers, Senior Economist, United States Department of Agriculture.

This report has been submitted to the Temporary National Economic Committee by a committee appointed by the Secretary of Agriculture, consisting of Messrs. Louis H. Bean, Mordecai Ezekiel, Donald E. Montgomery, and Frederick V. Waugh, all of the Department of Agriculture.

The report was written by Dr. Meyers under the supervision of the above committee. Dr. Meyers is one of the foremost authorities on monopolistic competition in the United States. He is the author of "Elements of Modern Economics" and "Modern Economic Problems."

The report deals with the present situation of agriculture as a part of our economic system and more specifically with monopolistic practices and inefficiency in the marketing system for farm products and for the products farmers buy. The impact of monopolistic restriction of industrial output and employment upon farm income, farm population and farm economy in general is extensively discussed.

Dr. Meyers wishes me to extend his thanks, to which I must add my own, to the committee named above for the extremely generous gift of their time and the valuable suggestions which they made for improvements in the report.

Respectfully submitted.

Theodore J. Kreps, *Economic Adviser.*

October 16, 1940.

AGRICULTURE AND THE NATIONAL ECONOMY

A REPORT SUBMITTED TO THE TEMPORARY NATIONAL ECONOMIC COMMITTEE BY A COMMITTEE APPOINTED BY THE SECRETARY OF AGRICULTURE CONSISTING OF LOUIS H. BEAN (CHAIRMAN), MORDECAI EZEKIEL, DONALD E. MONTGOMERY, AND FREDERICK V. WAUGH, ALL OF THE UNITED STATES DEPARTMENT OF AGRICULTURE.

THIS REPORT WAS PREPARED UNDER THE SUPERVISION OF THE COMMITTEE BY ALBERT L. MEYERS, SENIOR ECONOMIST, UNITED STATES DEPARTMENT OF AGRICULTURE.

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CHAPTER I

THE AGRICULTURAL SITUATION

This report is an attempt to trace the relationship of agriculture to the national economy both in the effects of agriculture upon the rest of the economy and in the impact of the economy upon the farmer. While attention is focused upon monopoly and concentration of control wherever these aspects are relevant, it has often been necessary to make the discussion considerably broader in order to obtain the proper perspective. Monopoly and concentration of control of production are of necessity discussed in terms of individual products, but whether the purchasing power of farmers can be increased by more production at lower prices, whether unemployment both urban and on farms can be reduced by increased farm production, depends upon the effective capacity of the Nation as a whole to consume more of all farm products, not merely more of some and less of others. It depends also upon whether there is an expanding foreign market or a contracting one.

A striking difference between the national and the commodity aspect of agriculture is to be found in the record of per capita food consumption. One of the most surprising facts with which we are confronted is a very nearly constant per capita consumption by weight of total foods. Table 1 shows this consumption for various periods in which business conditions are widely different.

TABLE 1.—*Average per capita consumption of principal agricultural products, 1920–37* [1]

[Pounds per capita per year]

Commodity or group	Average				
	1920–24	1925–29	1930–33	1934–37	1920–37
Cereal products	229	226	211	196	217
All potatoes	178	164	156	157	164
Sugar and sirup	106	118	107	110	110
Dairy products:					
Milk and cream [2]	315	334	337	328	328
Manufactured	40	45	46	49	45
Fruits:					
Fresh [3]	179	192	184	189	186
Dried	6	6	5	6	6
Vegetables [4]	135	148	154	169	151
Lean meats and fish	138	133	129	126	132
Eggs	28	32	32	30	30
Beans, peas, nuts	11	14	16	16	14
Fats (excluding butter)	44	47	47	45	46
Coffee, tea, spices, and chocolate	16	17	18	19	17
Total food	1,425	1,476	1,442	1,440	1,446
Wool	6	5	4	5	5
Cotton	27	29	23	26	26
Tobacco [5]	8	9	8	9	9
Flaxseed	16	20	12	11	15

[1] Consumption of foodstuffs in terms of estimated weight available for sale in retail market.
[2] Whole milk and cream in terms of whole milk.
[3] Fresh and canned fruit in terms of fresh fruit, on basis of total population, consumption of watermelons and cantaloups per urban inhabitant.
[4] Fresh and canned vegetables in terms of fresh, per urban inhabitant.
[5] Consumption per person 15 years old or over, or per person of smoking age.

Source: J. P. Cavin in Agricultural Situation, Bureau of Agricultural Economics, January 1939.

These figures exhibit a similar constancy whether measured in pounds, calories, or acreages required to produce the crops. While the total remains nearly constant, there are, of course, changes in the relative per capita consumption of different foods—what we might call competition for a place in the human stomach. The fluctuations in the cost of the food budget coincide mainly with changes in purchasing power of consumers. These changes result both in paying higher prices for given foods and in selecting higher priced foods as purchasing power increases.

At the same time total agricultural production as measured by total acreage harvested or planted to crops has fluctuated remarkably little. Table 2 shows the acreage of certain particular crops and groups of crops for the period since the middle 1920's.

TABLE 2.—*Harvested acreage of crops for the United States, 1924–39* [1]

[1,000 acres]

Year	All corn	All wheat	Cotton	Tobacco	Potatoes	15 principal crops	46 crops harvested	46 crops planted
1924	100,420	52,463	39,501	1,702.3	3,106.1	330,977	347,764	353,049
1925	101,331	52,443	44,386	1,750.7	2,809.8	334,982	352 187	363,709
1926	99,452	56,616	44,608	1,628.4	2,810.8	333,853	351,061	359,180
1927	98,357	59,628	38,342	1,555.9	3,131.8	332,468	350,577	358,246
1928	100,336	59,226	42,434	1,864.4	3,499.0	336,259	353,632	367,497
1929	97,805	63,332	43,232	1,980.0	3,018.7	339,346	356,989	363,076
1930	102,465	62,614	42,444	2,121.3	3,102.9	342,420	361,101	368,196
1931	106,912	57,681	38,704	1,987.2	3,466.6	336,638	357,374	372,446
1932	110,577	57,839	35,891	1,403.8	3,549.3	342,680	363,609	376,054
1933	105,963	49,438	29,383	1,738.4	3,411.5	310,945	331,929	372,445
1934	92,354	43,400	25,866	1,278.5	3,597.0	274,190	295,936	339,298
1935	95,804	51,229	27,509	1,437.1	3,541.1	309,057	336,470	356,758
1936	93,020	48,863	29,755	1,438.3	3,062.6	292,603	315,640	360,270
1937	93,741	64,422	33,623	1,750.6	3,184.9	315,898	340,605	364,662
1938	82,222	69,869	24,218	1,600.5	3,022.6	314,184	341,744	356,052
1939	85,803	53,696	23,928	1,942.2	3,031.7	295,612	325,449	344,086
Average, 1924–39	98,660	56,422	35,303	1,638.9	3,212.3	321,380	342,629	361,129
Highest deviation from average percent	12.1	23.8	26.4	25.0	12.0	6.6	6.1	4.1
Lowest deviation from average percent	10.0	23.1	32.2	24.7	12.5	14.7	13.6	6.0

[1] Source: Crops and Markets, U. S. Department of Agriculture, December 1939.

Even for the individual crops the acreages from year to year are generally fairly close to the average for the entire period. The last two rows in the table show the highest and lowest years for each column as a percent of deviation from the average. In considering total agricultural production the last 3 columns are of most interest to us. For the 15 most important crops the highest year was only 6.6 percent above the average and the lowest year only 14.7 percent below the average. For the 46 crops harvested acreage in the biggest year was 6.1 percent above the average and the smallest year only 13.6 percent below the average. If we are measuring agricultural effort the last column is most significant because it includes acreage planted and later abandoned due to crop failure, or other causes. Here the year of largest acreage is only 4.1 percent above the average and the year of smallest acreage only 6 percent below the average.

The significance for us of these figures is that they show that we have reached the practical limits for the employment of labor in agriculture. It is especially noteworthy that the year of greatest acreage for crops as a whole, 1932, is the year of lowest farm income on record.

This is also the only year on record since 1920 when movement of population to the farms exceeded movement from the farms to the cities. While farm population has increased since 1932 it is significant that rural unemployment has also increased. In 1930, the low point, farm population was 30,169,000. By 1937 this had increased to 31,729,000 an increase of 1,560,000. The 1937 Biggers census showed 1,547,000 males living on farms as either totally or partially unemployed.[1] The improvement in farm income which took place during this period 1932-37 must be attributed partly to the activities of the Agricultural Adjustment Administration, partly to the effect of improved business conditions on prices, and partly to the fact that better business conditions resulted in a net movement from farms to cities of 1,753,000 during the period. If this one and three-quarter millions of people had been forced to remain on the farms as producers, rather than going to the city as consumers, the improvement in farm income per capita would have been substantially less.

It must be conceded that there is a definite lack of employment opportunities in agricultural production. We can produce enough to satisfy "normal" per capita consumption and "normal" exports without employing any more labor than is now on farms. Indeed it may safely be said that, without counting on any further improvements in farm technology, but simply by a more widespread adoption of the best methods now known, it would be possible to release a large number of farm laborers for work in the cities if jobs were available for them. Production for the export markets no longer affords the employment opportunities for farm labor that it used to do. The rise in production in competing countries, trade controls under military and nationalistic conditions, and the current war have drastically reduced our export outlet for farm products. Instead of an export market of 8,000,000 to 11,000,000 bales of cotton, it is not possible to envision as much as 2,000,000 or 3,000,000 bales for export. Instead of an export market for 200,000,000 bushels of wheat, or 25 percent of the domestic crop, we cannot now export more than 50,000,000 to 100,000,000 bushels even with a large subsidy. The relative importance of the domestic and foreign markets for farm products is clearly indicated by the following data (table 3) at 5-year intervals from 1869 to 1937. The shrinkage in the relative importance of the export market is even greater since 1937.

Without attempting to speculate on the course of farm exports for the next few years, it may be safe to assume that over a longer period agricultural exports will continue the trend of declining importance which has prevailed since the 1890's.[2] This declining trend has been due to: the expanding domestic market due to increased population; the change in the status of the United States from a debtor to a creditor nation; expansion of competing production in previously undeveloped foreign producing countries; and to the American tariff policy. A revival of trade agreements after the war might alleviate the last mentioned cause, but the others would still persist.

For agriculture as a whole the welfare of the farmers is becoming ever more dependent upon the domestic market. In the future it is entirely possible that farmers in general may gain more by improved

[1] See also testimony of Dr. Taeuber in the hearings of the La Follette committee (Senate Committee on Education and Labor).

[2] See L. H. Bean, The Changing Composition of Gross Farm Income Since the Civil War, Bureau of Agricultural Economics, pamphlet.

employment and pay rolls in industries exporting manufactured products than by direct exportation of farm products.

TABLE 3.—*The changing relative importance of domestic and foreign demand for farm products* [1]

	Percent of total gross income from production derived from—		Percent of gross income from production (excluding cotton) derived from—	
	Domestic market	Foreign market	Domestic market	Foreign market
1869–73	83.4	16.6	91.3	8.7
1874–78	83.2	16.8	88.7	11.3
1879–83	80.7	19.3	85.9	14.1
1884–88	84.7	15.3	90.2	9.8
1889–93	82.4	17.6	88.1	11.9
1894–98	80.8	19.7	86.3	13.7
1899–1903	81.6	18.4	87.0	13.0
1904–8	83.3	16.7	90.1	9.9
1909–13	85.1	14.9	92.4	7.6
1914–18	82.4	17.6	86.0	14.0
1919–23	82.2	17.8	87.1	12.9
1924–28	85.3	14.7	91.3	8.7
1929–33	90.4	9.6	94.8	5.2
1934–37	91.6	8.4	95.3	4.7

THE CHANGING RELATIVE IMPORTANCE OF EXPORT DEMAND FOR SELECTED FARM PRODUCTS [1]

	Contribution of exports to gross income from production of—			
	Cotton	Tobacco	Wheat	Pork and pork products
1869–73	71.6	75.6	23.8	6.6
1874–78	70.2	62.4	28.1	13.0
1879–83	67.8	50.2	37.8	17.9
1884–88	67.2	50.1	29.3	12.4
1889–93	66.7	42.8	34.7	17.6
1894–98	69.2	41.6	34.3	18.8
1899–1903	67.3	39.8	34.5	20.9
1904–8	67.5	39.4	20.5	17.2
1909–13	67.5	41.4	18.0	13.3
1914–18	48.8	37.7	34.4	18.8
1919–23	58.4	44.0	34.9	21.1
1924–28	58.7	43.0	27.0	12.4
1929–33	56.4	38.8	15.7	6.9
1934–37	43.6	36.7	7.6	2.7

[1] L. H. Bean, The Changing Composition of Gross Farm Income Since the Civil War, Bureau of Agricultural Economics, pamphlet.

In this setting we had in 1933 the organization of the Agricultural Adjustment Administration. At its inception the Agricultural Adjustment Administration represented the outgrowth of an agricultural philosophy which had its origin in prevailing industrial practices. Farmers found industrialists restricting output and making agreements in order to maintain prices. Under the impact of large agricultural surpluses, programs for curtailment of new production were developed accompanied by devices designed to increase price returns to growers. The farmers, however, did not demand unlimited price increases. The doctrine of parity prices was propounded as representing a sort of "just price"—one which would place agriculture and

industry on a parity. It is to be noted that parity prices would be achieved either by an increase in farm prices or by a decline in prices farmers pay.

Shortly, however, there began to be a shift from the emphasis on parity price to emphasis on adequate or parity income. On the one hand, the 1934 drought had demonstrated that parity prices might be accomplished by low farm income. On the other hand, as the notion of parity price became ingrained in farmers' minds it appeared that there was a danger that pursuit of this objective in the face of industrial unemployment and dwindling foreign markets might lead to curtailment of production below domestic requirements.

To meet this situation the newer adjustment programs have been developed on the basis of standards that provide for the "normal" per capita consumption of the 1920's, plus normal carry-over, plus estimated exports. This really is the principle of the "ever normal granary." To the extent that funds are provided, soil conservation and parity payments help to care for situations where normal supply cannot yield a parity income. It must not be supposed that parity income has been attained. The limited funds together with the market situations (domestic and foreign) in various crops have prevented this. The funds have been distributed as far as possible upon the basis of the comparative situations existing for different crops, taking into consideration other means of aid which are available.

Society apparently insists upon a normal agricultural output and continuity of employment in agricultural occupations. This naturally raises the question as to whether there should not be an equal insistence on stability in industrial production and employment with due regard to a normal rather than an erratic rate of growth. The fact that agriculture is by nature more competitive than industry is not in itself a justification for a different treatment of the two.

Subsequent chapters will deal with more specific situations in our agricultural economy and in the economy in general as it affects agriculture.

CHAPTER II

CONCENTRATION OF CONTROL IN AGRICULTURAL PRODUCTION

Agriculture is usually considered to be the last surviving stronghold of pure competition. This statement is substantially correct if we are viewing agriculture as a whole and if we confine our attention to agricultural production and exclude the marketing and processing of agricultural products.

Even in agricultural production, however, some tendencies may be noted toward increasing concentration of control. Table 4 shows the percent distribution of farms by size by census years and the changes in these percentages for various periods. It is notable that the only groups showing increases from 1910 to 1935 are the two largest groups (farms having over 500 acres) and the smallest group (farms under 20 acres). From the point of view of concentration of control this increase in the number of farms in the smallest size group is distinctly deceptive. The census classes as a separate farm each tract of land which is operated by a separate individual, regardless of whether he is an owner, cash tenant, or sharecropper.

TABLE 4.—*Percent distribution of number of farms by size of farms in various census years and changes in distribution*

Size of farm (acres)	Percent distribution of number of farms				
	1910	1920	1925	1930	1935
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
Under 20	13.2	12.4	15.1	14.6	18.4
20 to 49	22.2	23.3	22.8	22.9	21.1
50 to 99	22.6	22.9	22.3	21.9	21.2
100 to 499	39.2	38.1	36.5	36.8	35.4
500 to 999	2.0	2.3	2.3	2.5	2.5
1,000 and over	.8	1.0	1.0	1.3	1.3

CHANGE IN DISTRIBUTION (PERCENTAGE POINTS)

Size of farm (acres)	1910–20	1910–25	1910–30	1910–35
Under 20	−0.8	+1.9	+1.4	+5.2
20 to 49	+1.1	+.6	+.7	−1.1
50 to 99	+.3	−.3	−.7	−1.4
100 to 499	−1.1	−2.7	−2.4	−3.8
500 to 999	+.3	+.3	+.5	+.5
1,000 and over	+.2	+.2	+.5	+.5

Source: Statistical Abstracts of the United States, Department of Commerce, 1937.

From 1910 to 1930, while the total number of farms as classed by the census decreased by 73,000, the number of "tenants for other than cash" (mostly sharecroppers) increased by 533,000. The percentage of farms operated by croppers increased from 25.8 percent of all farms in 1910 to 34.6 percent in 1930. The break-down of tenants into cash and share groups is not given for 1935, but the total number of farms operated by tenants increased from 37 percent of all farms in 1910 to 42.1 percent in 1935. The latter figure represents a slight decline from the 42.4 percent reported for 1930.

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Table 5 shows the percentage distribution of all land in farms by size of farm. Here the evidence of a tendency toward concentration of control is much more striking. From 1910 to 1935 changes are similar in character to those shown for number of farms, but the distortion is more marked. The percent of all farm land in farms over 1,000 acres increased from 19 percent in 1910 to 29.4 percent in 1935.

The same caution regarding the increase in the smallest size group applies here as well as to table 4. While a break-down is not given for cash tenants and croppers, the percent of all farm land operated by tenants increased from 25.8 percent in 1910 to 31.9 percent in 1935.

TABLE 5.—*Percent distribution of all land in farms by size of farms in various census years and changes in distribution*

Size of farm (acres)	Percent distribution of land in farms				
	1910	1920	1925	1930	1935
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
Under 20	1.0	0.9	1.1	1.0	1.2
20 to 49	5.2	5.1	5.0	4.7	4.4
50 to 99	11.7	11.1	11.0	10.0	9.9
100 to 499	53.6	49.3	48.6	45.3	44.3
500 to 999	9.5	10.6	10.5	11.0	10.8
1,000 and over	19.0	23.1	24.3	28.0	29.5

CHANGES IN DISTRIBUTION (PERCENTAGE POINTS)

Size of farm (acres)	1910–20	1910–25	1910–30	1910–35
Under 20	−0.1	+0.1	0	+0.2
20 to 49	−.1	−.2	−.5	−.8
50 to 99	−.6	−.7	−1.7	−1.8
100 to 499	−4.3	−5.8	−8.3	−9.3
500 to 999	+1.1	+1.0	+1.5	+1.3
1,000 and over	+4.1	+5.3	+9.0	+10.5

Source: Statistical Abstracts of the United States, Department of Commerce, 1937.

The degree of concentration of ownership varies by regions and according to the type of farming. It is natural to expect that range land will show a typical farm much larger than that of farms under various types of more intensive cultivation. Table 6 shows the percent of total farm acreage in the larger farms by regions.

TABLE 6.—*Farms, 500 to 999 acres and 1,000 acres and over as percent of regional total farm acreage* [1]

Region	1,000 acres and over			500 to 999 acres		
	1920	1925	1930	1920	1925	1930
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
New England	4.7	3.8	4.4	6.9	6.0	7.7
Middle Atlantic	2.4	1.5	1.7	2.6	2.4	3.0
East North Central	1.2	1.0	1.1	2.6	2.5	3.0
West North Central	16.7	14.6	17.1	16.1	16.1	17.7
South Atlantic	9.2	8.5	7.7	7.4	7.4	7.2
East South Central	6.1	5.0	4.5	5.9	5.6	5.2
West South Central	41.1	40.3	41.2	7.6	7.3	8.0
Mountain	52.3	60.9	68.3	17.8	16.9	15.1
Pacific	50.1	51.9	58.5	15.3	14.7	13.1

[1] Computed from United States Census of Agriculture, 1930.

It is notable that the only two regions which show marked declines in the acreage of farms in these largest sized groups are the South Atlantic and East South Central regions. In other regions the percentage in large farms either remained practically the same or increased. Aside from the type of agriculture, the fact that Mountain and Pacific farms have had less time in which to be divided by inheritance may account in part for the high percentages in large farms.

One of the most concentrated agricultural areas in the country is the Imperial irrigation district of California. The following table compiled from exhibit 8904 in the hearings of the La Follette Committee gives some idea of this concentration.

Owners with 640 acres or more, Imperial irrigation district, 1938

Type of owner	Number of owners	Acreage
Resident individuals	28	32,930
Local corporations	8	12,203
Nonresident individuals	19	20,533
Nonlocal corporations	26	76,061
Total	81	141,727

It may be noted that corporations and nonresident individuals comprised 65 percent of the large owners and owned 77 percent of the total acreage of this group. Only 10 of the owners were banks or insurance companies. Another remarkable fact is that of this acreage 22,385 acres were in lettuce, 8,270 acres in peas, 6,707 acres in carrots, and 29,081 acres in cantaloups and honeydews, crops which require relatively large amounts of labor. The explanation lies in the fact that many of the large owners are shippers, handlers, or packers who have acquired ownership in order to insure themselves of sources of supply.

Many other parts of the committee's report are worth reading in the evidence they develop of "factories in the field" in California.

Concentration of farm ownership should also be considered from the point of view of multiple ownership of farms as well as simply a question of the size of individual farms. Unfortunately our data on this point are fragmentary. The following two tables represent the result of information collected in connection with A. A. A. contracts.[1]

Multiple landowners in 1935

Types of concern	Number reporting	Farms owned
Insurance company	111	67,302
Bank	170	21,447
Other large landowners	3,491	18,830
Total	3,722	107,579

[1] S. Doc. 274, 74th Cong., 2d sess.

Multiple owners reporting 100 or more forms in 1934

Farms owned	Number of owners	Farms	Estimated acreage in farms owned
100 to 499	84	17,207	3,338,158
500 to 999	15	10,011	1,942,134
1,000 and over	25	70,400	13,657,600
Total	124	97,618	18,937,892

These figures represent only farms which were reported in connection with the corn-hog programs. (Not all farms were under contract but each owner had some of his farm under contract.) An analysis of farms of all types would show a much larger number of multiple farm owners and a much larger amount of acreage owned.

Another aspect from which concentration can be considered is the fewness of the number of growers engaged in the production of a crop. This naturally will be most conspicuous in the case of specialized crops which are confined to particular regions. The following table shows the number of growers and the farm value per grower in certain specialized crops.

TABLE 7.—*Estimated number of growers and approximate annual farm value of crops for which marketing-agreement programs were in effect during the fiscal year 1939* [1]

Marketing-agreement program	Number of growers	Farm value (1,000 dollars)	Farm value per grower (dollars)
California, Arizona—citrus	20,000	43,412	2,171
Texas—citrus	7,500	6,190	825
Florida—citrus	20,000	35,155	1,758
Western Washington—vegetables	1,300	1,146	882
Colorado—vegetables	250	946	3,784
Utah—onions	180	220	1,222
Oregon—cauliflower	300	88	293
Florida—celery	385	3,289	8,543
Mississippi—tomatoes	2,750	540	196
California, Oregon, and Washington—walnuts	14,000	11,237	803
Florida, Georgia, North Carolina, and South Carolina—watermelons	10,000	2,518	252
California (Imperial County) and Arizona (Yuma County)—cantaloups	79	9,413	119,152
Arkansas—grapes	1,000	192	192
Eastern Oregon and eastern Washington—fresh prunes	600	377	628
California, Oregon, and Washington—fall and winter pears	3,000	1,600	533
California—Elberta peaches, Bartlett pears, plums, apricots, and cherries	7,000	6,784	969
California—Hardy pears	500	270	540
California, Oregon, and Washington—hops	1,274	5,546	4,353
Connecticut—Valley shade tobacco	54	3,636	67,333
Package bees and queen bees	250	450	1,800

[1] Source: Annual Report of the Associate Administrator, Agricultural Adjustment Administration.

It may be noted, however, that these growers applied for marketing agreements. In most cases this may be considered as at least partial evidence that they had not been able to exercise any great degree of price control acting by themselves.

FACTORS TENDING TO INCREASE CONCENTRATION OF PRODUCTION

The chief element operating to increase the size of the farm has been the introduction of farm machinery. Machine cost is cheaper than hand cost only when the machine is used at a sufficient percent of capacity so that machine cost per unit of output is small. The influence of mechanized farming in increasing the scale of farm operation is too well known to need further comment.

Another factor perhaps as important as mechanization for many types of farming is a sufficient supply of seasonal labor. Most farms of any size need extra labor at harvest time. Ordinarily there is no other work on the farm which would employ these workers at other seasons of the year. Unless the farm owner can be reasonably sure of a supply of this type of labor when needed there is little point in raising a crop which he might not be able to harvest. Unless a supply of seasonal labor appears certain he would do much better to confine his production to an amount which he, his family, and the steadily employed help can harvest. The development of harvesting machinery for various crops has, of course, been a material factor in lessening the degree of dependence upon this seasonal labor.

The acquisition of farms by canners and other processors in order to obtain an assured source of supply for their factories might be listed as another element working toward large-scale farm ownership. This practice has shown its greatest growth among west-coast canners but it could spread to other areas if circumstances seemed to warrant it.

In periods of farm prosperity there is a natural tendency of farmers to invest some of their savings in additional land. Even if the investment takes the form of purchase of farm mortgages it may result in addition to the farm holdings through subsequent foreclosure of the mortgage.

FACTORS TENDING TO RETARD OR REDUCE CONCENTRATION

In spite of what we said above about the influence of mechanization, one aspect of mechanical progress is tending to moderate the size of the mechanized farm. This is the development of the small tractor, the two-row cultivator, and other low-priced, small-capacity farm machinery. The amount of land necessary for economic use of such small machinery is naturally much less than that required for the larger models which until recently have been the only ones available. Even these smaller machines, of course, require a minimum amount of land for economic operation which is somewhat larger than that required for straight hand labor. Because of their introduction, however, it is likely that when farm mechanization reaches its ultimate limits the typical farm will be smaller than that indicated by the mechanized farms of recent years.

Another very important factor operating to decrease the size of farms is the division of farm lands through inheritance. In the case of farms which are small to begin with this division has unfortunate results. Each of the heirs may be left with a farm which is too small to support a family and altogether too small for anything approaching low-cost operation.

The work of the Farm Security Administration both in providing financial aid and in teaching better methods of farm operation is of material influence in keeping many small farms in operation.

CONTROL OF PRODUCTION BY MEANS OTHER THAN OWNERSHIP

Concentration of land in large farms and concentration of farm wealth or farm income and even multiple ownership of farms do not necessarily indicate a control over production which may amount to an effective price control. In the case of specialized crops these factors may contribute to price control but even in specialized crops, with a few possible exceptions, such control has not become very widespread.

Some degree of control of agricultural production may be achieved without actual ownership or operation of the farms involved. One of the most important forms of such control is the contracting for the purchase of the output either of an entire farm or of a specified number of acres by canners or other processors or handlers.

The extension of credit, particularly of production credit, offers a means of control of agricultural production in the conditions which may be stipulated for the granting of such credit. As a more or less regular practice such production loans as made by canners, handlers, and dealers in farm supplies either specify that the product shall be marketed through the lender or through an agency approved by him.

Purely from the production side these practices generally involve the maintenance or expansion of production of particular crops in which the handler or creditor is interested. Usually no restriction of output is attempted. On the marketing side these relationships are subject to certain abuses which will be considered later.

CONTROL OF PRODUCTION BY GOVERNMENT AGENCIES

Some control of agricultural production has been attempted by State programs with varying degrees of success. When one thinks of Government control nowadays, however, it is usually that practiced under the Agricultural Adjustment Administration. Most of the State programs are now either incorporated in, or closely allied with, the A. A. A. programs.

In spite of the fact that A. A. A. programs are designed to increase farm income and to do this at least in part through devices to increase the price of farm products, including some restriction of output, these programs cannot be judged by the same standards as would be used in considering monopolistic industrial restriction of output.

Industrial monopoly is motivated purely and simply by the desire to obtain the maximum net return (moderated perhaps by fear of Government regulation). A. A. A. programs, on the other hand, have had the goal of parity prices, or more recently of parity income. In many agricultural commodities, the upper reaches of the demand curve are so inelastic that it can easily be demonstrated that true monopoly price would be far above the parity price. Parity price, despite complaints about the validity of its use, does set an absolute limit beyond which Government efforts will not be extended to raise the price of an individual commodity. In milk marketing agreements feed prices and other elements may be taken into consideration.

A still more important difference may be noted between industrial monopoly and A. A. A. control of production; namely, the amount of attention given to social considerations. An industrialist who restricts output, lays off workers, and leaves them as a burden of unemployment for Government care. The A. A. A. program, on the other hand, does not ignore the social consequences of its own actions. Consequently, we find the resort to such devices as minimum acreage quotas for small farms, and minimum soil conservation payments for small farms which are much larger proportionately than those which go to the larger farms. Serious efforts have also been made to protect tenants and sharecroppers and to see that they participate in the A. A. A. benefits, although still more action in this direction may prove necessary. Also relief measures both on the farm and in the cities help to care for those who may be adversely affected.

From the point of view of the consumer the recent shift to the "ever normal granary" concept represents an extremely mild form of output control. The goal now in most of the basic crops is a total supply equal to "normal" domestic consumption plus normal carryover plus anticipated exports. Where these standards are adopted the danger of monopolistic exploitation of the consumer is greatly reduced. Instead of limiting production even to the point which would yield parity prices, output is designed to give a normal total supply. In cases where this supply is too great to yield a parity income, farm receipts are supplemented by parity payments and soil conservation payments at public expense. Also such programs as the 5-cent-milk program, the school-lunch program, and the stamp plan help to offset the effect of price increases on the lowest income groups.

Even the land withdrawn from production of a particular crop cannot be considered as "idle capacity" in the ordinary industrial sense since such land must be devolved to soil conserving crops and other soil building practices must be followed in order to earn the A. A. A. payments.

CHAPTER III

CONCENTRATION OF CONTROL IN MARKETING AGRICULTURAL PRODUCTS

The concern of the farmer in the marketing of agricultural products is broader than the mere question of competition or monopoly. His interest is in the question of the economic efficiency of the entire marketing system. He is adversely affected by unnecessary costs in the marketing system just as much as if these elements of marketing expense represented a profit to someone. Increasing marketing costs which are due to higher wages are not a total dead loss to the farmer because some part of this will be returned to him in the form of increased purchasing power for farm products.

In observing the widening spreads between farm and consumer prices a certain caution must also be borne in mind. Particularly in the case of fruits and vegetables, shifts in the regions of production necessitating longer hauls will naturally increase that part of the spread which is due to transportation cost. This is not necessarily a disadvantage either to the farmer or to the consumer. It may mean in part that southern farmers are growing crops which are more valuable than cotton and it means that consumers are receiving fresh vegetables for a longer part of the year.

There are still, however, many unnecessary and unwarranted items of cost or profit in the farm-consumer spread. While this chapter deals primarily with concentration of control, some other aspects of the problem will be considered both here and in later parts of this report.

CONCENTRATION OF CONTROL AT LOCAL SHIPPING POINTS

Farm products cannot be moved at low cost except in carload or at least truckload lots. The typical farm producer of most crops, however, does not have a carload of his product available for market at any one time. Under these circumstances it follows that someone must assume the function of assembling farm produce in carload lots at the local shipping points. In addition to the function of assembling, temporary storage is often required for some crops at the local shipping points. Grading and some primary processing for many crops are often performed most economically at the local shipping point rather than on the farm or at a later stage of the marketing operation.

The volume of farm commodities available for shipment at local points sets limits to the number of buyers who can afford to compete for this local business. In some small isolated local areas the volume is insufficient to warrant the activity of even one full-time buyer and the function of assembly is handled as a side line by the local general store. Whenever there is only a single local buyer or where the number of buyers is extremely small, the advantage in bargaining power is heavily on the side of the buyer and against the farmer.

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In general, buyers are much better informed as to market conditions than farmers are. Even when the farmer is aware of prices prevailing in other markets he may be deterred from shipping to them by the uncertainty of price changes between shipment and arrival, by the difficulty in obtaining transportation space which may be greater for an occasional shipper than a regular shipper, and simply by the inconvenience of making his own shipments. Wherever the farmer is selling in small lots the local buyer has the difference between carlot and l. c. l. rates as an additional margin on which he may operate.

Common complaints made by farmers against local handlers are: Misrepresentation of grades in buying; misrepresentation of market conditions and prices; and collusion among buyers to keep prices down.

The development of the motortruck and the extension of farm to market roads has been an important factor in improving the bargaining power of the farmer. He is able to haul his own product to a wider range of markets when he has a truck of his own and so may become relatively independent of the local buyers.

The motortruck has also brought with it a new type of buyer, the itinerant trucker-handler, who competes with local buyers for the farm output. The services of the trucker-handler offer many advantages to the farmer. At least one loading and unloading operation is generally avoided. By coming directly to the farm the farmer's time is saved and during the harvest such time may be particularly valuable to him in labor and supervision on the farm. Truck transportation rates on short hauls and even on some comparatively long hauls are lower than rail freight rates and much less than l. c. l. rates.

The trucker-handlers, as distinct from truckers who operate as common carriers, are accused, however, of several abuses. In addition to the abuses of misrepresentation of grades and market prices cited in the case of local buyers there are charges of giving bad checks. In general it appears that the itinerant trucker may be more apt to resort to these practices than the local dealer, because the trucker is engaging in a single transaction only and may or may not come back to the same farmer again. The local buyer is more often engaged in a repeat business with perhaps some fixed investment in storage space and so is more apt to be motivated to secure the good will of the farmers.

It is frequently alleged that the trucker-handlers are the weakest sellers on terminal markets. The reason advanced to explain this is that they are more interested in profiting by the trucking operation itself than they are in a merchandising profit. Consequently they will sell at low prices for a quick sale in order to be able to get another truckload. In perishable commodities it is claimed that this practice tends to "break the market" for farmers selling their own produce at the terminal markets and for other handlers who would otherwise hold on for higher prices. It is claimed that on the following day these lower prices are reflected back to the farmer in lower farm prices. Even if this claim could be substantiated, however, it must be weighed against the fact that the trucker is actually operating on a much lower margin for freight and handling combined than are the other shippers.

As far as it can be ascertained, the general opinion of farmers seems to be that the advent of the trucker-handler has been of distinct benefit to them but that more control of his activities is necessary to prevent abuses.

CREDIT CONTROL AND MARKET FREEDOM

One of the important factors operating to decrease the farmer's freedom in marketing his crop is restrictions imposed by the agency which lends him production credit. In a "Survey of Conditions Affecting the Production and Marketing of White Potatoes on the Eastern Shore of Virginia," by J. L. Maxton of Virginia Polytechinc Institute and J. H. Heckman of the Farm Credit Administration, 44 percent of the farmers interviewed reported that their marketing operations were restricted by the type of production credit used. Maxton and Heckman state:

> Reviewing these statements, it is seen that there is a distinct relationship between the type of marketing, the agency used, and the method of securing credit. For instance, 51 or 37 percent of the growers financing their operations in a manner not to restrict their marketing program reported that they were either doing their own marketing or patronizing more than one sales agency; whereas only 12, or 11 percent, of the 109 reporting that their marketing program was restricted by their production credit program said that they were using more than one agency, and not any were doing their own marketing. In a similar manner, 83 of the 85 who secured their supplies on a crop lien or share planting basis patronized exclusively the agency from which they obtained their supplies; while 55 of this number reported that their contract specifically provided for this practice. Growers who finance their crop in this manner feel cramped in their marketing program. Some stated that they were permitted to make sales other than through the agency furnishing the supplies, provided higher prices could be secured, and further provided that the account of the sales and the check from such sales were turned over to the supply agency until the grower's account was settled. In lieu of a definite agreement, there is evidently a general understanding of a moral obligation existing regarding patronage, as a much higher percentage of these growers market through one agency then do those who secure their supplies either on a cash or an open account basis. It may be stated that in cases where supplies are furnished either on a crop lien or a share planting basis, the marketing program of the grower is definitely set forth as part of the terms of the production credit program.

When a majority of the output from a given locality is restricted in market freedom there may be a disadvantage to independent farmers as well as to those who are bound by contract. Outside buyers tend to be discouraged from entering the local market area because of the smaller volume of business remaining open to them. The agency which has the contracts with the farmers is then assured of a fair volume of business for itself regardless of whether it deals with the independent farmers or not. Consequently, it can afford to confine its outside purchases to the weakest sellers among the independent farmers or to await breaks in the market before making purchases from the independents. The disadvantage in bargaining power to the independent farmer is obvious.

RESTRICTIONS ON TRADE IN TERMINAL MARKETS

In general the trading on the terminal markets is the most highly competitive of any stage in the marketing of agricultural commodities. There are large numbers of both buyers and sellers and a majority of each is usually about as well informed as possible about market conditions.

In the marketing of fruits and vegetables the chief complaints center around the inadequacy and the physical inefficiency in the terminal markets. A careful study of these market conditions may be found in "Wholesale Markets for Fruits and Vegetables in 40

Cities", by William C. Crow, United States Department of Agriculture, Circular No. 463.

With a few conspicuous exceptions this study shows that terminal markets for fruits and vegetables in the vast majority of cities are antiquated to such an extent that they are unable to take advantage of modern handling methods. Most of the markets are much too small for the volume of business handled. In many of them truck loading and unloading is seriously delayed. In some congestion is so great that loads must be moved by hand from the truck to the warehouse rather than unloaded directly onto the platform.

In many cities the need for more market space has resulted in the construction of additional markets often at a considerable distance from the first one. In come cases the additional terminals have been built by railroads. The markets owned by the railroads generally refuse space to products shipped by truck and some even confine the business to that received over their own lines.

One of the most serious elements in the handling of produce on terminal markets in recent years is the amount of racketeering in some cities. Evidence which is almost prima facie may be deduced by comparing commercial trucking rates in different cities as seen in the following table:

TABLE 8.—*Commercial trucking rates for hauling specified fruits and vegetables from railroads or docks to principal wholesale markets within the city*

City	Average distance of haul	Percent of produce hauled in hired trucks	Trucking rates for—			Do charges include loading and unloading
			Apples per box	Cabbage per 100-pound sack	Potatoes per 100-pound sack	
	Miles	*Percent*	*Cents*	*Cents*	*Cents*	
Baltimore	4	25	4	5	5	Yes.
Buffalo	1–3	66	3	5	5	Yes.
Chicago	3	35	4	15	8	No.
Cleveland	½	35	3	5	5	Yes.
Los Angeles	½	5	2½	5	4	Yes.
Milwaukee	1	25	3	5	5	Yes.
Newark	¼	25	4–5	5–7	5–6	Yes.
New Orleans	½	25	2–3	3–5	3–4	Yes.
New York	½	100	6–7	12½	10	No.
Philadelphia	3	100	5	10	10	Yes.
St. Louis	¾	100	3	8	6	Yes.
St. Paul	¾–1½	15	2	4	4	Yes.
San Francisco	½–2	70	4	5	5	Yes.
Seattle	1½	30	2½	5	5	Yes.

Source: Compiled from Circular 463, U. S. Department of Agriculture.

Costs differ from one city to another but not to the extent represented by these wide differences in trucking rates. Poor market organization not only makes for higher costs all around but in itself contributes to the development of racketeering. Mr. Crow states: [1]

In some cities costs of distribution are kept unnecessarily high by various forms of racketeering. The most common racket appears to be carried on in connection with the trucking of produce within some of the large cities. The growth of these trucking rackets has been made easier by the lack of adequate market facilities or the improper location of these facilities. Sometimes these rackets take the form of making exorbitant charges for services which could be rendered at less cost. In others, inefficient and roundabout methods are enforced when the services could be performed much more efficiently in some other way.

[1] U. S. Department of Agriculture Circular No. 463, p. 23.

And in still other cases charges are assessed for the rendering of no service at all. These rackets have taken many forms in the different cities, but the purpose and result is always the same—the extortion of unnecessary charges in the marketing of fruits and vegetables. The provision of good markets for proper rail connections would eliminate some of the situations which are conducive to the growth of these rackets.

In contrast to the conditions found in the terminal markets for fruits and vegetables, the terminal markets for livestock and grains are operated with a relatively high degree of efficiency. In the case of livestock, the Packers and Stockyards Act must be credited with at least a part of the better marketing practices in this industry. Various grain warehouse laws may also be a factor in the grain trade.

Without a great amount of specialized study it is difficult to say whether any industry or firm is operating as efficiently as possible. It may be that grain and livestock marketing could be improved. Nevertheless in the case of the fruit and vegetable markets, inefficient practices are so obvious that Mr. Crow's criticisms can stand by themselves.

Apparently, as far as the terminal markets are concerned, inefficiency is about as important as monopoly as a cause of poor returns to the farmer. However, in the case of the trucking rackets monopoly and inefficiency are inextricably entwined.

BARRIERS TO INTERNAL TRADE IN FARM PRODUCE

One of the favorite devices in recent years for concentration of control or at least for the prevention of free and unrestricted competition has been the development of barriers to internal trade. These barriers are on a State or local basis. They are often particularly onerous in the marketing of farm products.

These restrictions are so numerous that even to list and classify them requires a considerable amount of space. A thorough treatment may be found in Barriers to Internal Trade in Farm Products, a special report to the Secretary of Agriculture, by Taylor, Burtis, and Waugh. Some of the forms which these barriers take are briefly discussed below.

Motor-vehicle regulations set up barriers such as: Requiring out-of-State trucks to take out local State licenses even for one trip, different and conflicting requirements for lights and other safety devices, different size and weight regulations. These regulations may act effectively not only to prevent outside trucks from coming into the State to do business but even to prevent their passing through the State to do business in other States. Lax enforcement of these regulations on local trucks and strict enforcement on outside trucks may make them even more discriminatory.

Restrictions against itinerant merchant truckers are often even more onerous and are also usually on a local city or county basis. License fees (for a license to sell, additional to the motor-vehicle license) of $200 to $300 are not at all uncommon. In many cases merchant truckers are charged higher license fees than local retail or wholesale stores.

Health regulations are usually the basis for confining the fluid milk market to the local milk shed area as arbitrarily defined. Barns of dairy farmers outside the area are either refused inspection by the local health authorities or inspection is made so expensive for those outside the area that they cannot afford it.

Special State grading, branding, and packaging laws in establishing peculiar regulations are often discriminatory against outside producers. These laws as well as the health regulations mentioned on milk are probably the most reprehensible since they represent the perversion of devices originally intended to protect the consumer.

Quarantines also which have the legitimate purpose of preventing the spread of plant or animal diseases are sometimes used as a means of discrimination against out-of-State farm commodities, through improper application or enforcement.

These are just a few of the typical practices. The list might be extended considerably. In practice some of these regulations tend to favor one group of farmers as against another. Many of them are designed to favor the commission merchants and brokers in the local markets as against both farmers and truckers.

Most of these practices have invited retaliation until the situation has become so serious that the governors of various States are beginning to hold conferences looking to the removal of some of these barriers. Unless the States themselves can solve the problem, Federal action will be necessary.[2]

CONCENTRATION OF CONTROL IN FOOD PROCESSING

Concentration of control has progressed much further in the processing of agricultural commodities than in any other stage of the agricultural marketing process. In general, however, concentration has not achieved anywhere near the degree which exists in some other lines of manufacturing. A detailed study of this concentration is given in "Large Scale Organization in the Food Industries" by A. C. Hoffman, published as a separate report by the Temporary National Economic Committee.

In most food lines concentration of control is of fairly recent origin. With some exceptions the amount of control at present exercised is not sufficient to give the manufacturers full control over the output or price of the product. In many lines, however, the rapid increase in size of the largest firms gives indication that if this rate of growth is continued the problems of monopoly and oligopoly will become as important in the food industries as they are in some other manufacturing industries.

Judging by the few companies whose published statements are available, the profits of food processing companies do not account for any considerable part of the spread between farm prices and consumer's prices of foods. Costs which could possibly be reduced may be much more important than profits. In meat packing where concentration of control has been conspicuous for many years, the net profits of the four leading companies averaged 1.76 percent of their sales for the period 1927–36;[3] and in no single year did they exceed 3 percent of sales.

The greatest concentration of control is found at present in food specialties such as the manufacture of soda crackers and the prepared breakfast cereals. Here also are found some of the greatest spreads between farm and retail prices. In 1939 the farmer received 23 per-

[2] See also hearings before the Temporary National Economic Committee on Interstate Trade Barriers, Part 29.

[3] A. C. Hoffman "Large Scale Organization in the Food Industries," Temporary National Economic Committee Monograph No. 35.

cent of the consumer's dollar spent for rolled oats, 15 percent for corn-flakes, 9 percent for wheat cereal and 7 percent for soda crackers.

Since most of these products are manufactured by companies producing several kinds of food products, it is practically impossible to estimate the part of the farm-retail spread that may be attributed to manufacturing profits. Some inferences may be drawn, however, from the fact that in 1938 the net profits of the National Biscuit Co. (principal products soda crackers and Shredded Wheat) amounted to 13.3 percent of their sales.[4] The Corn Products Refining Co. (corn oil, corn meal, and corn starch) reported 1938 profits which amounted to 18.3 percent of their net sales.[4] Since part of these profits are due to the possession of particularly valuable brand names, it cannot be claimed that they are truly indicative of the general level of profits in cereal processing. Large advertising expenses, however, which are not counted as profits have been instrumental in building up the "good-will" of these brand names to a point where they yield profits of this size which are really in the nature of monopoly profits on the possession of the brand name.

The profits of these specialized food processors are of more concern to the consumer than to the farmer. Since these processors use so small a proportion of the total supply of wheat and corn and oats, it may be doubted whether the complete elimination of their profits would raise the prices of any of these crops by as much as one cent a bushel. Lower prices of processed cereals, however, might result in considerably more consumption. Whether this would mean increased consumption of total foods or whether it would be at the expense of other foods is problematical.

As far as the national market is concerned concentration of control has not progressed very far in the canning of fruits and vegetables except for certain specialized crops. Of much more importance to the farmer is the concentration of buying power in local markets which is represented by the canning companies. In order to assure themselves of adequate supplies, canning companies cannot afford to locate their factories too close to each other. In consequence, there is often only one canner and at the most usually not more than three or four to whom the farmer can conveniently haul his produce. As a result competition in buying is between the canner and the fresh market rather than among the canners themselves.

In local areas where there is more than one canning factory, acreage contracts may be used by a well-financed company as a means of "freezing out" its competition. If the strong company obtains a large amount of acreage (perhaps through granting production credit) it may then proceed to bid up the prices on the "free supply" at harvest time, forcing its competition either to go without supplies or to pay an unprofitably high price for them.

The place to look for concentration of control in the canning industry is in the manufacture of cans rather than in the canning industry itself. It is entirely possible that the profits of can and tin-plate manufacturers are a more important element in the spread between farmer and consumer than the profits of the canning companies themselves. In 1939 the profits of the two largest can manufacturers were both in excess of 9 percent of their sales.[5] Since these companies make

[4] Poor's Manual. Industrial volume, 1939.
[5] Ibid.

other containers it is not possible to segregate the income and sales for cans alone. Since the cost of the can constitutes an appreciable part of the price of all low-priced canned goods, profits of this amount may contribute noticeably to the difference between the farm and retail price of the canned article.

Quoted prices on cans, 1939 [6]

Size of can:	*Cents per can*
No. 1	1. 393
No. 2	1. 941
No. 2½	2. 356
No. 3	2. 646
No. 10	5. 834

[6] Converted from rates per 1,000 cans given in Almanac of the Canning Industry, 1939.

Thus on a No. 2 can of tomatoes selling for 8 cents, 24 cents out of the consumer's dollar is represented by the cost of the can to the canner. If we assume can manufacturers' profits as 9 percent of sales, this means that 2 cents of the consumer's dollar spent for these tomatoes goes to the can manufacturer as profit.

The most rapid growth of large scale food processing and distribution in recent years has been that of companies manufacturing and distributing milk products. Hoffman found that in 1934 the three largest sellers were handling 15.6 percent of all fluid milk; 20.8 percent of all butter; 62.9 percent of all cheese; and 44.3 percent of condensed and evaporated milk. (These were not the same sellers for all three commodities.) In individual large cities the percentages of fluid milk handled by the larger companies are much larger than for the country as a whole.

While the profits of some food processors may be large and perhaps some are excessive, we can easily be mislead by concentrating our entire attention on profits. If large scale organization succeeds in reducing the spread between farm and consumer prices, the farmer and the consumer are better served than they would be by smaller enterprises which made less or no profits. The economies of large scale manufacturing are well known. The question is whether these economies are being passed on to the consumer in the form of lower prices or whether there are certain offsetting diseconomies which prevent this.

Processed agricultural products are now sold almost entirely by brand names. To the extent that people can be persuaded to buy particular brands, competition ceases to be on a price and quality basis. Each seller then has a monopoly of his particular brand. All buyers will not necessarily leave him if he raises his price above that of other brands or if the price of other brands is lowered. This situation is described by Professor Chamberlin as one of monopolistic competition.

Under monopolistic competition the individual firms generally attempt to expand their sales by increased advertising and selling expenses rather than by lowering their prices. This is often the wisest policy from the viewpoint of the individual firm, but it has serious consequences for the economy as a whole. The firms which survive and expand do so not so much because superior efficiency allows them to undersell their competitors but rather because superior advertising and selling methods and greater appropriations enable them to gain

and hold customers. From the point of view of the general public selling expenses which serve merely to entice customers from one seller to another are an economic waste.

It is almost impossible to form an accurate estimate of the amount of selling expenses of various firms. In the income and expense statements reported to Moodys, selling expenses are usually lumped together with some other expenses. Of still more importance is the fact that some processors sell to brokers or jobbers, some to wholesalers and some to retailers so that varying parts of the selling expense appear in the expenses of these subsequent handlers rather than in the statements of the processors themselves.

With these precautions in mind, we may note the expenses reported in 1939 by some of the leading food processors. National Biscuit Co. which sells mostly to retailers reports "selling, general, and administrative expense" which amounts to 35 percent of their sales, General Mills which sells mostly to wholesalers report "selling, general, and administrative expenses" amounting to 17.6 percent of sales. Ward Baking Co., selling mostly to retailers, reports "delivery and selling and advertising expenses" which amount to 29 percent of sales.

It would be interesting if we could obtain a break-down on cost figures which would separate selling costs (costs necessary to persuade the buyer to choose a particular brand) from other costs which might be properly termed handling costs. Even in the case of handling costs there may be some elements which could be eliminated by a more efficient economy. It is difficult, for example, to imagine how the bread trucks of the large commercial bakers can move 100 to 200 miles from the bakery and still be able to compete with local bakeries at the points of destination.

Even though volume production yields economies of production itself, these economies may be more than offset by the selling and advertising costs necessary to push a particular brand. To large volume which is achieved by selling at low prices there can be no particular objection, unless these prices are merely low temporarily, to force out competitors. Large volume for individual firms accompanied by large selling costs and high prices is of no particular benefit to the consumer or farmer. Both might be served better by a larger number of smaller firms with somewhat higher production costs, but which compete actively on a price basis.

However, if small firms compete upon the basis of competitive advertising and selling effort rather than on a price basis no particular gain is achieved. The real test is whether the consumer receives lower prices or the farmer higher prices or both.

CONCENTRATION OF CONTROL IN RETAIL OUTLETS

Retail food distribution has been marked by two contradictory tendencies—the growth of the chain stores and an increase in the total number of stores. For the country as a whole in a rough way the chains may be said to have added to the total number of stores rather than to have replaced the independents although this does not necessarily apply to any given locality.

Retailing has been the least efficient of any stage in the food marketing process. The chains have been accused of some evils in their

buying practices. Regardless of this, however, they have been one of the most important influences operating to reduce the spread between farmer and consumer. This influence has been both direct through their own introduction of improved selling methods and indirect in forcing independents to adopt better methods in order to compete with them.

The advantages of the chains in the mere obtaining of quantity discounts are often overemphasized. These advantages are generally open to any retailer-owned groups or so-called co-operative chains which can buy in similar volume. After purchases reach car-lot size successive discounts tend to be less and less important. Other economies in store operation may be as important or more important than quantity discounts. Elaborate systems of stock control insure the chains that they are not carrying large stocks of slow moving merchandise on their shelves. The cost accounting methods of the chains are designed to locate quickly the sources of possible loss so that they can be corrected. Advertising and store arrangements and display are in the hands of full-time experts in the central offices.

Most of these methods are available to members of voluntary and cooperatively owned chains but there is of course no means of forcing the individual stores to adopt them. Many independent grocers are not even aware of the importance of proper merchandising and cost-accounting methods and some do not have the ability to put them into practice.

As far as the retailing operation itself is concerned no approach to economic efficiency can be made without an adequate volume of business per store unit. We must face the fact that there are simply too many store units in existence. Hoffman found that in 1850 there was one retail food store for each 947 people in the United States. In 1900 there was one store for 486 people, and in 1935 this ratio was one store for 358 people. This is in spite of the recent trend toward combined grocery and meat stores.

The retail-grocery business is characterized by a steady stream of bankruptcies and failures and a steady stream of new stores taking their places and even adding to the total number. One view would consider this a process of competition eliminating the unfit. Even if this were the only cause at work we could hardly regard the situation as salutary since the steady upward trend of bankruptcies, interrupted only in part by cyclical changes, would then indicate either that the unfit are simply replacing the unfit or indeed that the number of the unfit is actually increasing.

The real weakness in this viewpoint, however, is that it is based on the assumption that food retailing is a case of pure competition whereas in reality it is a classic example of monopolistic competition. Competition on a strictly price basis would tend to confine the business to those stores whose operating costs were lowest and freeze out the high-cost operators, thus making for small retail margins and low retail prices. Actually, however, the degree of active price competition is fairly small. Instead we find among the independent stores particularly, there is strong resentment against anyone who cuts prices. Independent stores compete among each other mainly upon the basis of service, credit extension, store location, dealer's personality, and other nonprice elements. Independent stores have been most active in sponsoring devices designed to prevent price

competition: Resale price maintenance laws, "fair" trade laws, antichain-store tax laws and similar measures. Such price competition as has existed has been most actively sponsored by the chains. From this stems most of the animosity against them.

Economic store operation depends upon a sufficient volume of business for each store. This has been adequately demonstrated by the chains and the supermarkets. At lower prices they make more profits than the independent stores. We must face the fact, however, that because there are too many retail stores in existence there is not a sufficient volume of business to go around even at lower prices.

It is argued by some people and perhaps with some reason that the small independent stores provide an opportunity for self-employment by people who would otherwise be unemployed. Such employment, however, often simply means the employment of the whole family at a combined wage return less than that considered adequate for a single worker plus the opportunity to buy their own groceries at wholesale. While there may be some merit in this as a temporary relief measure, it is in reality an indictment of an economic system which fails to provide other jobs so that these opportunities to become the "sharecroppers of retailing" [7] actually appear attractive.

The small independent store is also defended as a stronghold of freedom of opportunity. There may be some sociological or psychological basis for this contention, but upon strictly economic grounds the argument is rather thin. Freedom of opportunity and individual initiative may or may not be worth the added amount which they cost to the consumer in higher prices and to the farmer in lower prices due to an inefficient retailing system. The answer is largely a question of opinion.

[7] A. C. Hoffman, op. cit.

CHAPTER IV

CONCENTRATION OF CONTROL IN SUPPLIES PURCHASED BY THE FARMER

Concentration of control in the supplies which the farmer purchases may be as much of a disadvantage to him as the conditions restricting the marketing of his products. In general the degree of concentration of control is much greater in the manufacture and sale of farm supplies than in the sale of farm products.

The manufacture of farm machinery since the beginning of the century has been subject to a considerable amount of concentration of control. The first case against the International Harvester Co. was brought in 1912 and settled by a consent decree. After various litigations the case was reopened in 1936 and the Government's case was dismissed largely on the grounds that "the percentage of all such machines that were made and sold by the International Harvester Co. has decreased from about 85 percent in 1902 to about 64 percent at the time of the decree of November 2, 1918." And the apparent belief in the mind of the court that the company was not in position to dictate prices.

The Federal Trade Commission examined the industry again in 1936. Table 5 shows some of the results of this study. In nearly all cases the largest company is the International Harvester Co. In most cases the second largest company is Deere & Co. J. I. Case Co. is second largest for two of the implements, third largest for seven, and fourth largest for nine. Oliver Farm Equipment Co. is largest for two of the implements, second largest for two, third largest for five, and fourth largest for seven.

We have here a situation of nearly perfect oligopoly. Two firms dominate the industry, 4 firms have effective control of the output and 8 or 10 firms control 90 percent of the sales of 8 implements, 80 to 90 percent of 4 implements and 70 to 80 percent of 5 implements. The Federal Trade Commission says:

> The effect on prices of this concentration of production is such that, with respect to the most important farm implements, the prices established by the leading manufacturers, especially International Harvester Co. and Deere & Co., constitute, insofar as the machines are of closely similar character, the price level which all manufacturers observe.

It is more difficult to obtain information on the concentration of control in the manufacture of other farm supplies. The census of manufactures lists only 35 establishments making bale ties, 34 making barbed wire and 18 making chicken wire. How many of these are independents and how many are jointly owned or controlled is not apparent. The Federal Trade Commission is now engaged in an investigation of the fertilizer industry.

In addition to concentration of control in specialized farm supplies the farmer is subject to the same disadvantages as other consumers of

building materials; processed foods, clothing and household goods wherever monopolistic practices exist in those industries.

TABLE 9.—*Percentages of various types of farm machinery sold by largest companies in 1936* [1]

Implement or machine	Percent sold by			
	Largest company [2]	2 largest companies	4 largest companies	8 largest companies
Grain and rice binders	56.5	88.2	95.0	[6] 95.4
Combines (all widths)	[3] 45.6	61.4	77.3	[3] 92.0
Grain threshers (all sizes)	20.4	40.1	64.9	[3] 72.8
Mowers, horse or tractor	53.4	75.2	87.1	91.7
Rakes, sulky, dump	50.6	69.7	82.1	[3] 88.5
Rakes, side-delivery combined rakes and tedders	36.9	64.3	74.9	[3] 78.2
Hay loaders, all types	38.6	64.0	73.0	76.2
Corn binders	64.6	99.1	100.0	----------
Corn pickers—field, horse or tractor	24.3	45.4	70.8	[6] 72.8
Ensilage cutters, silo fillers, all types	22.3	30.1	32.0	----------
Walking plows, moldboard:				
1-horse	[4] 15.2	27.3	34.1	----------
2-horse and larger	17.5	34.2	51.9	[7] 53.4
Sulky plows, molding-board, horse-drawn	22.3	41.4	60.9	[3] 67.7
Tractor plows, moldboard	35.8	61.4	78.0	89.5
Disk harrows, horse and tractor	37.5	59.5	71.3	80.4
Spike-tooth harrows	26.8	46.5	58.7	63.4
Spring-tooth harrows, sections	32.9	52.8	69.2	[3] 78.0
Corn planters, 2-row, horse or tractor	[5] 43.3	76.7	85.3	[3] 90.6
Cultivators:				
Walking, 1-row, 2-horse	[4] 23.9	46.8	80.6	[7] 91.1
Riding, 1-row, 2-horse	40.5	63.4	72.5	[3] 81.4
Riding, 2-row, horse-drawn	22.5	35.3	48.1	[6] 53.1
Cultivator, tractor-drawn or mounted	45.7	72.0	88.9	98.9
Tractors, all-purpose, wheel-type	42.6	68.3	87.5	98.7

[1] Compiled from Federal Trade Commission Report on Agricultural Implement and Machinery Industry.
[2] International Harvester Co. except where indicated otherwise by footnote.
[3] Allis Chalmers Manufacturing Co.
[4] Oliver Farm Equipment Co.
[5] Deere & Co.
[6] 5 companies.
[7] 6 companies.
[8] 7 companies.

CONCENTRATION OF CONTROL IN RETAILING TO THE FARMER

In spite of what has been said about concentration of control in manufacturing, the farmer may suffer even more from lack of competition in the retailing of the goods he buys.

Very small towns obviously cannot support any considerable number of competing retail establishments. The general store and the combining of various lines of business such as "furniture and undertaking" is characteristic of the efforts of the small-town merchant to obtain a sufficient volume of business to cover the overhead of store operation. The 5- and 10-cent store, the cut-rate drug store, and the low-priced-shoe chain store are practically unknown to the smaller rural communities. Farmers, however, are better able than formerly to get to the larger trade centers for these articles

Where the grocery chains have extended to the small villages it will often be found that their prices are higher than that of other units of the same chain in the larger cities. Whether this is a difference actually based on different costs or whether it is due simply to a policy of meeting local competition is a question which would require a considerable amount of investigation.

For some products, particularly farm machinery, the paucity of retail outlets lends itself to the policy of "full line forcing." Concerning this practice the Federal Trade Commission says:

> Not all dealers handling the products of a large manufacturer confined their farm implements to those of one manufacturer, although the other products openly handled generally were noncompetitive; and certain retailers handled important competing products surreptitiously. However, to the extent that the efforts of the leading manufacturers' salesmen, by coercion, to prevent dealers from handling the implements of other manufacturers are successful, each manufacturer of competing products is forced to set up separate dealers to handle his products. This imposes great difficulties upon the smaller, short-line manufacturers. The frequent necessity of finding new dealers involves increased selling expense, while the setting up of new dealerships, many doing only small volumes of business at relatively high retailing expense, is not conducive to efficiency in retail distribution. Any undue expense involved must either be absorbed by manufacturers and dealers or passed on to farmers. Both appear to result. Consequently, not only is the ability of the short-line manufacturers to compete with the large manufacturers impaired, but prices to farmers tend to be enhanced. To the extent, also, that the ability of short-line companies to compete on a price basis is reduced, the dominant position of the leading companies in the industry is strengthened and it becomes easier for them to effectively control prices at levels profitable to themselves.

Regardless of whether "full-line forcing" is practiced or not, the country retailer cannot afford to carry very many competing lines of products. This difficulty combined with the small number of competing retail stores tends to make competition much less effective in rural than in urban areas.

One important source of higher prices to farmers for farm supplies is excessive interest charges when these supplies are sold on a credit basis. The following table is a compilation of figures quoted by Maxton and Heckman in their "Survey of Conditions Affecting the Production and Marketing of White Potatoes on the Eastern Shore of Virginia," January 1938:

Northampton and Accomac Counties, Va., cash and credit prices of certain farm supplies and credit charge

Article	Average credit price	Average cash price	Difference	Credit charge on yearly basis
				Percent
Northampton County:				
Fertilizer, 6-6-5 ton	$32.83	$27.80	$8.06	29
Seed potatoes, 11-peck sack	4.74	4.12	.62	22
Barrels	.312	.284	.028	34
Accomac County:				
Fertilizer, 6-6-5 ton	32.36	28.98	3.38	22
Seed potatoes, 11-peck sack	5.20	4.37	.83	27
Barrels	.301	.280	.021	30

In addition to these charges those who bought on credit received on the average about 13 percent less for the sale of their crops than those who purchased supplies for cash.

While conditions on the Eastern Shore may not necessarily be typical, the repeated demands of farmers throughout the country for better production credit terms (now being met in part by various governmental and Government-aided agencies) are evidence that credit terms have not been satisfactory.

The extreme example of monopoly in retailing to farm people is the plantation store which sells to tenants and sharecroppers in certain

parts of the South. In part the plantation store owes its existence to the inability of uneducated people to budget a small income which would otherwise be presented to them in an annual lump sum. In practice the plantation store ranges all the way from benevolent paternalism to extreme exploitation. It will not disappear until the general problem of the sharecropper is solved.

The spread of hard roads and the development of the automobile has made a tremendous improvement in the shopping ability of the farmer. Even so the farmer cannot afford to make long trips except for the purchase of high priced occasionally purchased articles. Competition is still fairly restricted for what are called the "convenience goods."

The mail-order house has for years been the chief source of economy for the farmer in making retail purchases of most farm and household articles. The two chief disadvantages of mail-order buying are the necessary delay in receiving the goods and the inability of the mail-order house to give local repair service on articles which require it. When we consider that each mail order is shipped individually at the highest freight rates per unit, the ability of the mail-order houses to undersell the local dealers must be considered a severe indictment of our wholesaling and retailing system.

CHAPTER V

METHODS OF REDUCING THE FARM MARKET SPREAD

The spread between farm prices and retail prices may be divided into two parts—the costs of the successive handlers of the product and their profits. Large profits as a percent of sales may be said to be conspicuous exceptions in the handling and processing of agricultural products. Hoffman and Waugh estimate that for most food products probably not over 5 percent of the retail selling price is represented by the combined earnings to capital at all stages in the marketing process.[1] Judging from the reports in the Agricultural Income inquiry of the Federal Trade Commission, the combined profit margins in cotton goods would amount to considerably less than 5 percent and the margins for shoes and leather products slightly more than 5 percent. Profits on tobacco, however, would be higher. The fact that profits are small as a percent of sales does not mean that they are not excessive as a percent of capital invested. It does show, however, that little difference would be made in the spread by eliminating them.

Profits, then, are not the main explanation of the difference between farm and retail prices. Where excessive profits exist as the result of monopoly situations their elimination might aid the farmer but we are forced to turn our attention to costs if any material means of savings are to be found.

Wages constitute the chief cost element at every stage of the marketing process. A considerable part of the increased spread between farm and retail prices in recent years is explainable in terms of increased wage rates. In most cases, however, the wage rates paid in the processing and handling of agricultural products are not unduly high when compared with those prevailing in other lines. High wages, moreover, are not inconsistent with low labor costs if labor is used efficiently.

Our problem is to discover the ways in which both labor and capital can be used more efficiently in our marketing system. Certain economies may be effected without material changes in our marketing system. These are: (1) Removal of barriers to internal trade; (2) reorganization and modernization of terminal market facilities in the large cities; (3) elimination of racketeering wherever it exists.

Other changes which might be expected to achieve much greater economies involve material changes in marketing methods. The chief sources of diseconomy in our marketing system as at present constituted are: (1) Too many transfers of title to goods involving selling and bookkeeping costs at each stage; (2) unnecessary handling of goods due to indirect routing and unnecessary changes of title; (3) cross hauling; (4) partially used capacity and facilities; (5) needless duplication of facilities; (6) competitive selling costs.

[1] U. S. Department of Agriculture Yearbook, 1940.

The remedy for many of these diseconomies lies in more integration. There is no doubt as to the economy to be achieved in combining the functions of retailing and wholesaling. The average independent retailer may spend as much as one-third of his time going to the market and in interviewing the various salesmen who call upon him. This is a cost both to the retailer and to the wholesalers and processors who employ the salesmen to call upon him. The chains, both corporate and cooperative, have demonstrated the economies to be achieved by combining these functions. The expansion of chains of all types may eventually solve this part of the problem.

An alternative to greater chain-store expansion in the reduction of marketing costs lies in the possible expansion of consumers' cooperatives. The chief disadvantage to consumer co-ops in this country as compared with England or Sweden has been the fact that chain stores here have been much more efficient than the competition faced by the co-ops in the European countries. However, with the development of cooperative wholesaling the chain-store advantage has been considerably lessened. The co-ops here do have one distinct advantage: They are composed largely of members who are intelligent enough to buy on the basis of grades or analysis rather than to rely on brand names. Savings from buying "co-op" brands rather than advertised brands may prove to be the factor which would give the co-ops a sufficient volume to lower costs considerably.

At the farm end of the marketing process the best solution to the problem seems to lie in cooperative marketing by the farmers. At small local shipping points effective competition among handlers and economic operation are almost incompatible. Cooperative marketing seems to be the only way to obtain a sufficient volume for low-cost operation and at the same time avoid exploitation of the farmer by the handler. Some producers' co-ops have in the past been characterized by monopolistic practices. The idea here is simply to carry the product out to a point where its price can be established in the more competitive terminal markets.

One of the most interesting questions at present is how far integration will take place and in which direction. That is, will the chains or consumers' co-ops carry on more manufacturing and processing and extend their purchases back all the way to the farmer as some of them are already doing in certain lines, or will the producers' cooperatives do more processing and marketing to carry the products closer to the consumer? There is no set answer to this question. On the part of the chains the extent to which they integrate will depend on whether they have a sufficient volume of business to warrant doing their own processing and on the terms which they are able to obtain from independent manufacturers. Many producers' cooperatives find it desirable to provide such services as grading and sacking or crating. Whether the cooperatives engage in further processing or marketing depends on the volume which a cooperative or group of cooperatives are able to assemble and on the degree of satisfaction given by existing services.

One important question will arise if integration becomes more general. At present the terminal markets provide the means of setting what may be called the basic prices for commodities. Firms which are so integrated that their products by-pass the terminal markets still use terminal-market prices at least as points of departure

in bargaining. As more and more combination and integration takes place the prices will tend to be less competitive and more subject to negotiation. If results are unsatisfactory it may be that more Government control will be necessary.

Integration and combination into corporate, cooperative, and voluntary chains will not solve the problem of the excessive number of retail stores. Until we are prepared to adopt some system of restricting the number of retail stores through licensing or some other means we shall have to accept the diseconomies resulting from needless duplication of facilities. Better results might be achieved by some form of action that would force manufacturing industries onto a full output basis. This would act on the problem from two directions: Full employment in industry would offer enough jobs so that people would not have to run stores as a means of bare subsistence, thus tending to decrease the number of stores; second, by increasing purchasing power, full employment would mean that the reduction in the number of stores necessary to achieve efficiency would not be so drastic as would otherwise be the case. The excessive costs of retail milk distribution on a competitive basis, however, are already causing many people to consider whether the distribution of milk should not be made a public utility.

MARKETING AGREEMENTS

Marketing agreements are made by growers and handlers under the supervision of the Secretary of Agriculture in order to improve the farmers' returns from particular crops in certain marketing areas.

These agreements attempt to regulate either the total amount marketed or the rate of flow to market within a season, or both. Regulations governing the rate of flow of some crops serve to prevent temporary market gluts and may result in some increase in returns to growers through this means alone. In the case of citrus crops and others where the harvest may be postponed considerable spoilage may also be avoided.

Regulations which limit the total quantity of a crop marketed are effective only where the demand for the crop is sufficiently inelastic so that a smaller amount marketed nets a higher return to growers.

Grade and size regulations in addition to the actual amount they keep off the market may confer a further benefit. Many marketing specialists feel that the marketing of culls and other very low grades tends to depress the prices of the higher grades by more than the effect of their simple addition to the total supply. Dealers buying the culls may simply advertise "potatoes" or "apples" at a certain low price and, if customers are not awake to the reason for the difference in price, this may force down the price of the No. 1 and No. 2 grades. Compulsory grade labeling would, of course, remove much of this influence. Under unregulated conditions, however, many produce handlers will admit that there is more profit to be made in low-grade than in high-grade produce.

For milk, the marketing agreements specify minimum prices which handlers must pay to producers. Many difficulties present themselves in the peculiar conditions which prevailed in milk marketing prior to the establishment of marketing agreements. There are sharply conflicting interests as well as some points of agreement among

consumers, handlers, producers within the milkshed area and producers outside the area. Most agreements represent not an ideal solution to the milk problem, but the best compromise which appears possible under the circumstances.[2]

At best, marketing agreements must be considered as temporary or partial solutions since they do not regulate production. In some cases where acreage control is in effect the agreements may also be used as a supplementary measure in years when a surplus is occasioned by large yields.

METHODS OF REDUCING PRICES FARMERS PAY

All of the general efforts to aid the consumer such as information service, grades and bona fide standards, informative labeling, the efforts of the Food and Drug Administration, the Federal Trade Commission, and the Department of Justice are of course an aid to the farmer as well as other consumers.

The Department of Agriculture in cooperation with State experiment stations is continually making tests of farm supplies and publishing the results of these tests for the farmer's benefit.

Cooperative purchasing appears to offer the most promise of curing the defects in the system of retailing to farmers which we noted earlier. Wherever retail competition is limited by the small size of the local market, cooperative purchasing appears to be capable of effecting substantial savings for the farmer. Such savings effected by cooperatives now in existence have been particularly important in the purchase of fertilizer, farm machinery, gasoline and oil, seed, and general farm supplies. Savings also are made in the purchase of groceries and articles for the farm household.

Many cooperatives combine the function of marketing with that of purchasing for their members. This may allow the fuller utilization of the time of employees and of storage space. The farmer also usually finds it convenient to purchase his supplies at the same place where he markets his products.

One of the most serious disadvantages to the farmer in his purchasing operation has been the high cost of credit for such purchases. The cooperative production credit associations, working under the direction of the Farm Credit Administration are designed to allow the farmer to take advantage of the lower cash prices. In addition to allowing the farmer to obtain cash terms when purchasing from regular dealers, this type of credit permits the farmer to patronize the cooperatives more easily since most cooperatives operate on a cash basis only.

[2] See the annual report of the Associate Administrator, Agricultural Adjustment Administration, 1939, for a fuller discussion of the problems involved.

CHAPTER VI

THE FARMER AND THE NATIONAL ECONOMY

Important and worth-while gains can be achieved for the farmer, in improved marketing methods and elimination of abuses which will decrease the farm-consumer spread and reduce the prices farmers pay. Other factors in the economy may be still more important, however, in influencing the farmer's income.

Much more important to the farmer are the general forces of supply and demand which set the price for his products. In spite of all that we have heard about overproduction of farm products, the explanation of low farm prices and farm incomes is not to be found in increased production alone. In 1939 the index of agricultural production was 107 as compared with the 1924–29 base of 100. The population index for 1939 on the same base would be 111. In other words agricultural production had increased less than the rate of increase of the population. Nor do the figures for individual groups of commodities indicate really excessive production as compared with the increase in population. These 1939 index numbers are: Grains 97, fruits and vegetables 128, truck crops 135, cotton and cottonseed 79, meat animals 106, dairy products 117, and poultry products 112. The shifts from grain and cotton into fruits, vegetables, truck crops, and dairy and poultry products are due in part to acreage restrictions under the A. A. A. and partly to changes in dietary habits which were already making themselves felt prior to 1933.

This does not mean than we have not had "overproduction" in the sense that too much has been produced for the market to absorb at satisfactory prices. What it does mean is that the explanation of "overproduction" must be found on the demand rather than on the supply side of the market. Prices have been low not so much because production increased but rather because of excess stocks due to decline in demand and because production was not decreased by the full amount which would have been necessary to offset this.

The decline in agricultural exports explains part of the decrease in demand for farm products. Several factors have been responsible for the decline in exports. Most important has been the American tariff policy. Directly, the high tariffs through preventing imports have deprived the foreign countries of the foreign exchange with which to buy our farm products. Indirectly, our tariffs have been the cause of retaliatory tariffs, foreign-exchange restrictions, import quotas and barter deals by foreign countries, all of which seriously restricted the sale of American farm products abroad.

Some of the decrease in farm exports has been due to increased production in foreign countries. Part of this has been a natural increase, as, for example, the expansion of cotton production in Brazil. Part has been occasioned by the desire of countries to make themselves more self-sufficient because of growing nationalism and as a means of

preparation for war. Crop loans at values above world-market levels have also served to "price us out of the market," particularly in cotton.

The Reciprocal Trade Agreements program had begun to make some improvement in agricultural exports but the outbreak of the war and the spread of the blockade has more than nullified these gains. It is, of course, impossible to prophesy the course of post-war exports, but regardless of the outcome of the war it does not seem likely that our farm exports will again reach the levels of the 1920–29 period.

The real potential market for farm products lies in the underprivileged classes if we can make the economic system work so as to provide them with a decent standard of living. In 1936, according to estimates by the National Resources Committee, there were 3,886,434 nonfarm families on relief. There were in addition 1,564,307 nonfarm families receiving annual incomes of less than $500 and 4,020,370 families receiving between $400 and $1,000 annual income.

It would not seem to be an unreasonable goal to attempt to raise the income of these families to $1,250 a year. Bear in mind that this is a family income and would allow for more than one member of the family working in many instances. If all the added income went to this group the estimated addition to national income required to raise them to the $1,250 level would have been about 12 percent of the 1936 income, or $7,461,000,000.

Studies made of consumer purchases of foods in 1936 by the Surplus Marketing Administration indicate that the additional value of foods purchased by these low-income groups if their incomes had been raised to $1,250 can be roughly estimated at $1,247,000,000. In 1936 the farm value of foods was estimated at 44 percent of the retail value. Applying this percentage to the added expenditure for foods we arrive at a figure of $537,680,000 in additional farm cash receipts. In addition to this there would have been about $50,000,000 added to the farm income from cotton and an undetermined amount due to the added purchases of wool and leather goods.

These figures are not to be taken as accurate estimates but merely as rough guesses. Playing with aggregates can be highly dangerous since it ignores so many of the other elements which may be at work while changes of this magnitude are taking place. For example the increased demand for food might easily have resulted in a higher percentage of the retail price to the farmer not only on these added purchases but on the entire amount sold. On the other hand if any considerable part of the increased incomes were in the food-handling trades the added wage costs might tend to reduce the percent going to the farmer.

The general dependence of agricultural prosperity upon industrial prosperity may be examined in another way. Since 1932 as national income has increased agricultural income has tended to increase at a more rapid rate than national income as a whole, so that the percent of national income going to agriculture has risen from 6.1 in 1932 to 8.9 in 1937. Only in part can this be attributed to agricultural-adjustment programs. In business depressions industrial output is curtailed more than agricultural output, consequently the barter terms of trade between industry and agriculture turn to the farmers' disadvantage.

The following table shows how the barter terms of trade have run against the farmer:

TABLE 10.—*Indexes of industrial production, agricultural production, and ratio of prices farmers receive to prices farmers pay*

	Industrial production [1]	Agricultural production [2]	Prices paid by farmers [1]	Prices received by farmers [2]	Ratios of industrial production to agricultural production	Ratios prices farmers receive to prices farmers pay
1929	100	100	100	100	100	100
1930	83	100	95	86	83	90
1931	68	106	81	60	64	74
1932	53	99	70	44	54	63
1933	63	96	71	48	65	68
1934	68	93	80	62	73	78
1935	79	91	82	74	87	90
1936	94	94	81	78	100	96
1937	103	108	85	83	95	98
1938	80	103	80	65	78	81
1939	98	106	79	64	92	81

[1] Federal Reserve Board Index (1940 revision) converted to 1929 base.
[2] Bureau of Agricultural Economics index converted to 1929 base.

The table practically speaks for itself. Income necessarily equals quantity times price. In the case of farm income during the past 10 years, the major changes have been in prices, while the quantity produced has been very stable. In industrial income, on the contrary, prices in general have been stable, while the quantity produced has varied greatly. During the depression years and subsequently, periods of low farm income have corresponded to periods of low industrial production. By and large, the farmer trades his products for the products produced by the city and if the city produces less the farmer gets less in the swap.

The forces leading to restriction of industrial output may be divided into two classes. The first class we might call involuntary restriction, or restriction of output under conditions where a fairly high degree of competition prevails. Under these conditions the impetus to reduced output comes entirely from reduced demand. Prices are lowered drastically but even at the lower prices firms find it necessary to curtail output, not to maintain profits but minimize losses. In recent years curtailment of output by many firms in the cotton textile industry in downward movement of the business cycle might be considered a fair example of this type of restriction. It should be noted, however, that this type of restriction may be caused at least in part by the second type of restriction to be discussed below. Also involuntary restriction of output by one firm or industry through decreasing purchasing power by discharging workers may cause further involuntary restriction in other industries and in the first industry as well. In the downswing of the cycle the effects are cumulative.

The second type of restriction we may call voluntary or monopolistic restriction of output. This type of restriction occurs wherever a firm or group of firms is in possession of a sufficient degree of monopoly power to be able to fix prices. This type of restriction was practiced even at the peak of the business cycle in 1929. The motive, of course, is to obtain the maximum amount of monopoly profits. In business recessions because these firms or industries are able to set their prices, rather than to accept those fixed by competition, prices are reduced less and output and employment are reduced more than would be the case if the industry were more competitive. In business depressions these firms may also be taking losses but they often find that losses

will be less if prices are maintained, or only slightly lowered, and output is sharply reduced. The resultant amount of involuntary unemployment in other industries is much greater if the monopoly industries happen to be producing raw materials. In this case the other industries are faced with rigid costs and falling selling prices.

Both in periods of prosperity and in periods of depression, monopolistic restriction of output decreases the possible real income of farmers and industrial workers. Monopolistic restriction increases the price of articles which farmers and workers buy. The restriction of employment decreases the ability of workers to buy farm products and reduced employment opportunities prevent the movement of excess farm labor to the cities. When this is accompanied by a tariff policy which both prevents the farmer from buying foreign competitive goods and restricts the foreign purchasing power for farm products, the exploitation of the farmer is obvious.

When the A. A. A. programs began some of its restrictions were roundly criticized. Theoretically such criticisms are sound. In a system of completely pure competition, no restrictions of agricultural output except those which are truly soil conserving could find any defense. There is no reason, however, why the farmer should be compelled to operate under prices set by pure competition while the prices of most of the rest of the system are characterized by monopoly, oligopoly, or at best by monopolistic competition. Restriction of output by the farmer is no more and no less justified than restriction of output by a trade union or an industrial employer.

In 1937 farm population constituted 24.6 percent of the total population while agricultural income produced was only 8.9 percent of total national income. This is cited by some people as an indication of inequitable distribution of income between industry and agriculture. It is so in part but it is also an indication of a deeper underlying difficulty which is helping to cause this disparity. Due to great improvements in every field of applied agricultural science, output per farm laborer has been steadily increasing. Agriculture is the one field in which all reductions in cost have been reflected in lower prices for the product.

Even with these declines, however, demand has not been sufficient to absorb the increased potential output and there has been a surplus of agricultural labor available for transference to industrial occupations. Up to the depression this transfer was actually taking place. From 1920 to 1930 farm population not only declined as a percent of total population (29.6 percent in 1920, 24.6 in 1930) but farm population also declined in actual numbers from 31,614,000 to 30,169,000, a decline of 1,445,000 people. From 1930 to 1939 as a result of urban unemployment we had an increase of farm population of 1,890,000.

If we remember that from 1920 to 1930, in spite of annual exports averaging nearly $2,000,000,000, a declining farm population was able to supply an expanding urban population the answer becomes obvious. Even for 1930 export levels we have about 2,000,000 too many people on farms. The following statement would indicate an even greater excess of farm labor:

> Contrary to the persistent long-time downward trend in the proportion of the total working population in agriculture, no reduction took place between 1930 and 1940. It is estimated that both the total farm population and the total farm working population increased during this decade about as much as the total United

States population and the total United States working population respectively. On the basis of the long-time trend, with 21 percent of the total working population in agriculture in 1930, there should have been only about 16 percent in 1940 instead of the present proportion of 21 percent. This difference of about 5 percent in a total United States working population of about 54 to 55 million is equivalent to about 2¾ million persons.

This indirect evidence of a surplus farm working population may be contrasted with the findings in the 1937 Unemployment Census that total and partial unemployment in agriculture amounted to about 1,500,000 persons; and also with estimates already presented (by Dr. Lorimer and others) of an annual net increase of about 200,000 farm youths to the farm working population, and of an accumulation of an excess of 1,886,000 farm males and 2,166,000 farm females in the 15–64 age group during the 1930–40 decade.[1]

An excessive supply of farm labor acts as a detriment not only to hired farm laborers but also to tenants and owner operators of family sized farms. The principal part of the income of tenants and operators of small farms comes from their own labor and that of the family performed on the farm. An excess of farm labor helps to produce an excess supply of the product and so through low prices to decrease the returns to small farm operators as well as the wages for hired labor. The large farm operator may find that low prices are in part offset by low wages to hired hands but on the small farm where most of the labor is performed by the family this decline in labor income is felt by the family itself.

In order to redress the balance between industry and agriculture it will be necessary not only to eliminate the present urban unemployment but also for industry to employ an increased number of workers so that the excess farm population can be drawn into occupations where its earning power will be greater. At present a considerable number of the unemployed may be said to be "concealed" on the farm, where the small farm incomes are divided among too many people. The final balance between agricultural and industrial population will depend in part upon the amount of agricultural exports. Unfortunately, this question will probably be settled by war rather than on economic grounds. In any event it would be extremely unfortunate if we returned to exporting on the basis which existed from 1920 to 1929. During that period to the extent that we exported agricultural and industrial products without receiving an equal value of goods and services in return the amount of excess exports may be said to have been given away. So long as we have in the cities people who are inadequately fed and clothed and on the farms people who suffer from the lack of industrial products there is no excuse for this sort of trading.

While parity prices give some measure of the extent of agricultural disadvantages we can easily be misled by concentrating too great attention on them. Parity prices reflect the conditions which prevailed in selected base periods (1909–14 for most crops, 1919–29 for some others). The result is that parity prices take no account of changes in cost of production or of changes in consumer tastes which have occurred since those base periods. Parity income, although more difficult to compute, should prove to be a much more satisfactory standard. There is no reason to freeze agriculture into patterns which prevailed in earlier periods. A proper balance in our economic system would be likely to find prices of some agricultural products much higher than parity and others considerably lower. The most

[1] L. H. Bean, testimony before the Senate Committee on Education and Labor.

important use of parity prices at present is to set limits at which Federal aid will stop. Even in this connection some revision of parity prices or use of parity income may be advisable.

Most of the Government programs for farm aid such as parity payments, crop loans, surplus purchases, export subsidies, and the like can only be defended as temporary means of relieving farm distress which has been occasioned by imperfections in our economic system which have been discussed. Extension of special privileges to the farmer is not a remedy for the existence of special privilege elsewhere in the system but merely a balance of abuses.

In the long run the farm problem will have to be solved not on the farm alone but in the general industrial and economic system whose defects have created the problem. Full output and employment in industry would increase demand for farm products, would draw off the surplus farm population and would lower the prices farmers pay

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